

## Message Text

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DRAFTED BY GFEKETEKUTY:EHW (STR)

APPROVED BY STR:CKYEUTTER

AGRICULTURE:BSIMPSON/GWHITE

LABOR:LLAVALLEE

TREASURY:MFELDMAN

COMMERCE:SCRAVEN

STATE:TO'HERRON/FSPILLMAN

STR:GFEKETEKUTY/CYEUTTER

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E.O. 11652: N/A

TAGS:ETRD

SUBJECT: MTN DAIRY SUBGROUP MEETING, JUNE 23 POSITION  
PAPER

PROBLEM

THE EC IS EXPECTED TO PROPOSE, AS EXCLUSIVE TERMS OF  
REFERENCE FOR THE WORK OF THE SUBGROUP, AN INTERNATIONAL  
DAIRY AGREEMENT SETTING A PRICE RANGE FOR PRODUCTS WITHIN  
WHICH TRADE WOULD HAVE TO TAKE PLACE. NEW ZEALAND MAY ALSO  
MAKE AN INITIATIVE ALONG THE LINES OF MARKET ORGANIZATION.

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MAJOR U.S. OBJECTIVES WILL BE TO: (1) EMPHASIZE THAT  
THE U.S. POSITION ON DAIRY IS CONSISTENT WITH ITS POSITION  
ON OTHER AGRICULTURAL COMMODITIES--I.E., THAT TRADE LIBER-  
ALIZATION WILL BRING THE GREATEST ECONOMIC BENEFITS,

INCLUDING MORE STABLE MARKET CONDITIONS AND SHOULD BE A PRIMARY OBJECTIVE; (2) ENSURE THAT THE WORK PROGRAM ADOPTED BY THE SUBGROUP IS NOT PREJUDICED IN FAVOR OF THE MARKET ORGANIZATION APPROACH; (3) REITERATE THAT THE U.S. INTENDS TO SEEK COMMON TRADING RULES FOR INDUSTRY AND AGRICULTURE TO THE MAXIMUM EXTENT POSSIBLE IN THE APPROPRIATE FUNCTIONAL GROUPS.

#### U.S. POSITION

1. DRAWING ON THE DISCUSSION BELOW, THE DELEGATE SHOULD STATE THAT THE U.S. POSITION ON DAIRY IS CONSISTENT WITH ITS POSITION ON OTHER AGRICULTURAL COMMODITIES--THAT TRADE LIBERALIZATION SHOULD BE THE PRINCIPAL OBJECTIVE OF THE MTN. WORLD DAIRY TRADE IS PARTICULARLY ENCUMBERED BY TRADE RESTRICTING AND DISTORTING MEASURES. LIBERALIZATION COULD BE EXPECTED TO INDUCE MORE STABLE MARKET CONDITIONS AND A MORE EFFICIENT ALLOCATION OF RESOURCES IN WORLD AGRICULTURE.

2. IN VIEW OF EXPECTED INITIATIVES ALONG THE LINES OF AN INTERNATIONAL DAIRY AGREEMENT, THE DELEGATE MAY MAKE A CONCRETE COUNTER-PROPOSAL THAT THE DAIRY SUBGROUP FIRST ATTEMPT TO IDENTIFY THE MAJOR PROBLEMS IN WORLD DAIRY TRADE, AND TO EXAMINE THE POSSIBLE TECHNIQUES AND MODALITIES FOR DEALING WITH THESE PROBLEMS. HE MAY POINT OUT THAT ONLY AFTER AN UNDERSTANDING IS REACHED AS TO THE KEY PROBLEMS OF CONCERN TO TRADING COUNTRIES CAN THE SUBGROUP DECIDE UPON SOLUTIONS THAT ARE LIKELY TO BE MOST PRODUCTIVE.

3. THE DELEGATE SHOULD REMAIN FLEXIBLE AS REGARDS THE ADOPTION OF A WORK PROGRAM FOR THE SUBGROUP. SINCE SOME MAJOR U.S. CONCERNS (FOR EXAMPLE, EXPORT SUBSIDIES AND COUNTERVAILING DUTIES) RELATING TO DAIRY WILL BE NEGOTIATED IN AN OVERALL CONTEXT (BOTH INDUSTRY AND AGRICULTURE) IN THE FUNCTIONAL GROUPS, THE U.S. DOES NOT REQUIRE THAT LIMITED OFFICIAL USE  
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THE SUBGROUP NOW ADOPT A FINAL WORK PROGRAM. IF ADOPTED, HOWEVER, SUCH A PROGRAM SHOULD GIVE AT LEAST EQUAL WEIGHT TO TRADE LIBERALIZATION AS TO THE COMPREHENSIVE COMMODITY (PRICE STABILIZATION) AGREEMENT APPROACH OF THE EC.

4. AS A CONTINGENCY, AND IN ORDER TO ENSURE THAT THE WORK PROGRAM IS NOT PREJUDICED IN FAVOR OF THE MARKET ORGANIZATION APPROACH, THE DELEGATE MAY PROPOSE THAT THE SUBGROUP BEGIN ITS WORK BY TAKING UP ONE MAJOR TRADE LIBERALIZATION PROBLEM (THE DELEGATE SHOULD SUGGEST SUBSIDIES AND COUNTERVAILING DUTIES) IN THE DAIRY FIELD IN ORDER TO (1) ASCERTAIN ITS ECONOMIC EFFECTS ON BOTH

IMPORTING AND EXPORTING COUNTRIES, AND (2) CONSIDER SPECIFIC PROPOSALS FROM COUNTRIES REGARDING THE MEASURE. THE SUBGROUP COULD ALSO TAKE UP ADDITIONAL ISSUES (FOR EXAMPLE, VARIABLE LEVIES OR IMPORT QUOTAS), IN EACH CASE COMMUNICATING THE RESULTS TO OTHER GROUPS CONCERNED, INCLUDING THE TARIFF AND NON-TARIFF MEASURES GROUPS.

5. THE DELEGATE SHOULD REEMPHASIZE THAT THE WORK OF THE SUBGROUP MUST BE DONE IN CONJUNCTION WITH THE WORK OF THE TARIFF AND NON-TARIFF MEASURES GROUPS AND THAT THE U.S. BELIEVES THAT THE TOKYO DECLARATION OBJECTIVES OF EXPANDING AND LIBERALIZING TRADE CAN BEST BE ACHIEVED BY SEEKING COMMON TRADING RULES FOR INDUSTRY AND AGRICULTURE.

6. FINALLY THE DELEGATE MAY STATE THAT THE PRODUCT COVERAGE OF THE GROUP NEED NOT BE LIMITED AT THIS STAGE AND THAT COUNTRIES SHOULD REMAIN FREE TO RAISE ISSUES RELATING TO ANY PRODUCT CATEGORY THEY DEEM TO BE IMPORTANT.

#### DISCUSSION

1. U.S. IMPORTS OF DAIRY PRODUCTS ARE LIMITED BY SECTION 22 QUOTAS WHICH HAVE GRADUALLY BEEN EXTENDED SINCE 1953 TO NOW COVER APPROXIMATELY 60 PERCENT OF TOTAL U.S. DAIRY IMPORTS (VALUE BASIS) AND 67 PERCENT ON A MILK EQUIVALENT BASIS. DEPENDING ON FLUCTUATIONS IN DOMESTIC MILK PRODUCTION, SECTION 22 QUOTAS HAVE GENERALLY LIMITED IMPORTS TO BETWEEN 1.5 PERCENT AND 2 PERCENT OF LIMITED OFFICIAL USE  
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U.S. ANNUAL CONSUMPTION (MILK EQUIVALENT, FAT BASIS). CHEESE IMPORTS MAKE UP THE LARGEST PORTION OF U.S. IMPORTS NOT COVERED BY SECTION 22 QUOTAS. DURING 1970-72 THE PERCENT OF CHEESE NOT COVERED BY QUOTAS RANGED FROM 35 TO 45 PERCENT. (IN 1973 AND 1974 THE U.S. ALLOWED LARGE TEMPORARY INCREASES IN QUOTAS DUE TO DOMESTIC SHORTAGES.) THE PRINCIPAL CHEESES NOT COVERED BY QUOTA ARE (1) SWISS OR EMMENTHALER, GRUYERE-PROCESS AND "OTHER" CHEESE (THE MISCELLANEOUS TARIFF CATEGORY), IF PRICED AT OR ABOVE A "PRICEBREAK," (CURRENTLY 86 CENTS PER POUND F.O.B. COUNTRY OF ORIGIN), AND (2) SHEEP'S AND GOAT'S MILK CHEESES, THE MOST PROMINENT OF WHICH ARE ROQUEFORT AND PECORINO. CASEIN AND LACTOSE ALSO ARE QUOTA-FREE.

IN MARCH 1955 A GATT WAIVER WAS GRANTED TO THE U.S. (WITH RESPECT TO ITS ARTICLE 2 AND 11 OBLIGATIONS) ON ITS SECTION 22 IMPORT RESTRICTIONS IMPOSED TO PREVENT INTERFERENCE WITH U.S. GOVERNMENT PRICE SUPPORT PROGRAMS FOR VARIOUS COMMODITIES, INCLUDING MILK. THE WAIVER REQUIRES THAT THE U.S. REPORT TO THE CONTRACTING PARTIES

ON REASONS FOR THE RESTRICTIONS.

WITHOUT ITS IMPORT CONTROLS, THE U.S. WOULD BE FLOODED WITH EXCESS SUPPLIES OF SUBSIDIZED DAIRY PRODUCTS. THIS WOULD HAVE EITHER UNDERMINED THE U.S. DAIRY PRICE SUPPORT

PROGRAM OR RESULTED IN U.S. FINANCIAL SUPPORT OF FOREIGN SURPLUS PRODUCTION.

2. THE GRADUAL EXTENSION OF SECTION 22 DAIRY QUOTAS SINCE THE GATT WAIVER WAS OBTAINED HAS BEEN DUE TO SEVERAL FACTORS. THE PRIMARY REASON WAS THE APPEARANCE OF A WORLD-WIDE DAIRY SURPLUS IN THE MID-1960'S AND ITS CONTINUANCE UP TO THE PRESENT TIME WITH TWO BRIEF INTERRUPTIONS. EXCESS STOCKS AND DEPRESSED PRICES LEJ TO CUTOFF COMPETITION, INCLUDING SUBSIDIZATION OF EXPORTS. (EARLIER, IN THE LATE 1950'S AND THE EARLY 1960'S, THE U.S. HAD IN FACT ENLARGED ITS EXISTING DAIRY QUOTAS.) BY 1967, THE U.S. FOUND ITS PRICE SUPPORT PROGRAM THREATENED BY DRASTICALLY INCREASED IMPORTS OF NEWLY-DEVELOPED DAIRY PRODUCTS (E.G., "JUNEX" BUTTERFAT/SUGAR MIXTURES, LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FORZEN CREAM) OR PRODUCTS FROM NON-TRADITIONAL SOURCES (E.G., AMERICAN-TYPE CHEESE MADE IN DENMARK OR SWEDEN). FOR FIVE YEARS BEGINNING IN 1967, THE U.S. QUOTA SYSTEM WAS EXTENDED ON SEVERAL OCCASIONS IN RESPONSE TO INCREASED IMPORTS OF NEW PRODUCTS UNDER CATEGORIES NOT PREVIOUSLY SUBJECT TO QUOTAS. FINALLY IN 1972 THE "PRICE-BREAK" CONTROLS WERE REVISED TO BUILD IN AUTOMATIC ADJUSTMENTS TO CHANGES IN PRICE LEVELS. (THE CONTINUED EXISTENCE OF THE "PRICEBREAK" IS EVIDENCE OF U.S. DESIRE TO MAINTAIN A DEGREE OF LIBERALISM IN ITS IMPORT REGIME.) ANOTHER REASON FOR THE EXTENSION OF SECTION 22 QUOTAS AS A MEANS OF PROTECTING THE SUPPORT PROGRAM WAS THE GRADUAL CLOSING OF OTHER MARKETS (SUCH AS THE UNITED KINGDOM AT THE TIME OF ACCESSION TO THE EC), WHICH INCREASED THE PRESSURES ON THE MARKETS OR MARKET SEGMENTS OF OTHER COUNTRIES WHICH REMAINED OPEN. ANOTHER CONTRIBUTING FACTOR HAS BEEN THE GENERALLY CONTINUING DECLINE IN PER CAPITA DAIRY CONSUMPTION, WHICH HAS AGGRAVATED PROBLEMS OF SURPLUS SUPPLIES.

3. THE U.S. SUPPORTS TRADE LIBERALIZATION IN THE DAIRY SECTOR AS IT DOES FOR AGRICULTURAL PRODUCTS GENERALLY. THE DISTORTION OF CURRENT TRADE DUE TO EXPORT SUBSIDIES, IMPORT RESTRICTIONS, AND OTHER MEASURES IS SUBSTANTIAL AND CLEARLY HAS AN IMPACT ON THE INTERNATIONAL ALLOCATION OF RESOURCES IN AGRICULTURE. THE U.S. ESTIMATES, FOR EXAMPLE, THAT 30 PERCENT OF WORLD EXPORTS OF DAIRY PRODUCTS IN 1974 BENEFITTED FROM DIRECT EXPORT SUBSIDIES (FOOD AID

CONSTITUTED AN INSIGNIFICANT SHARE OF WORLD DAIRY EXPORTS IN 1974). THIS INCLUDED VIRTUALLY ALL OF THE EXPORTS OF THE WORLD'S SECOND LARGEST EXPORTER--THE EC. IN ADDITION, INDIRECT SUBSIDIES IN VARIOUS FORMS HAVE BEEN USED BY VARIOUS COUNTRIES AND HAVE ASSISTED THEIR EXPORTS.

ALSO ILLUSTRATIVE OF THE DEGREE OF TRADE DISTORTION IS A COMPARISON OF PRICES AMONG EXPORTING AND IMPORTING COUNTRIES. RECENT SUPPORT AND PURCHASE PRICES FOR DAIRY PRODUCTS IN CERTAIN COUNTRIES WERE AS FOLLOWS:

SUPPORT OR PURCHASE PRICES FOR DAIRY PRODUCTS  
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	PRICE FOR			
	MILK	BUTTER	CHEESE	NFDM
U.S.	7.24	67.75-70.75	79.25(3)	60.60
CANADA	11.02	90	60	64
EC (1)	8.70-10.90	51-109	--	38-48
AUSTRALIA (2)	5.35	--	--	--
NEW ZEALAND (2)	4.40	--	--	--
SWITZERLAND	11.25	--	--	--
FINLAND	11.80			
AUSTRIA	8.25			

(1) PRICES VARY DEPENDING UPON THE RELATIONSHIP OF THE CURRENCY IN THE MEMBER STATE TO THE UNIT OF ACCOUNT.(2) ESTIMATED RETURNS TO PRODUCERS FOR MANUFACTURING MILK.(3) CHEDDAR CHEESE.

U.S. SUPPORT AND PURCHASE PRICES FOR MILK AND CERTAIN DAIRY PRODUCTS ARE LOWER THAN THE PRICES IN THE EUROPEAN COMMUNITY, FINLAND, AUSTRIA AND SWITZERLAND, YET THE U.S. HAS TO MAINTAIN QUOTAS ON IMPORTY FROM THESE COUNTRIES LARGELY BECAUSE OF THEIR EXPORT SUBSIDIES AND/OR ASSISTANCE.

MOREOVER, THE U.S. IS NOT ALONE IN APPLYING IMPORT RESTRICTIONS ON DAIRY PRODUCTS. MOST DAIRY PRODUCING COUNTRIES HAVE SUBSTANTIAL IMPORT RESTRICTIONS OF THEIR OWN. THE EC, FOR EXAMPLE, MAINTAINS AN UNLIMITED LEVEL OF PROTECTION THROUGH VARIABLE LEVIES ON DIARY PRODUCTS IMPORTED FROM THIRD COUNTRIES. SWITZERLAND RESTRICTS DAIRY PRODUCT IMPORTS THROUGH QUOTAS AND LICENSING. AUSTRALIA HAS RESTRICTIVE IMPORT LICENSING, AND CANADA HAS BOTH LICENSING AND QUOTAS.

4. CLEARLY, IF THE U.S. IS TO PUT ITS SECTION 22 QUOTAS ON THE NEGOTIATING TABLE, OTHER COUNTRIES ARE ALSO GOING TO HAVE TO BE WILLING TO NEGOTIATE THEIR SUBSIDIES AND IMPORT RESTRICTIONS. IN THIS REGARD, THE NTM SUBGROUP ON

SUBSIDIES AND COUNTERVAILING HAS AGREED THAT PARTICIPANTS SHOULD SUBMIT PROPOSALS, INCLUDING DRAFT TEXTS ON SUBSIDIES AND COUNTERVAILING PROBLEMS IN OCTOBER. THE U.S. HOPES TO SUBMIT DRAFT LANGUAGE FOR SUBSIDIES AND COUNTERVAILING RULES FOR BOTH INDUSTRIAL AND AGRICULTURAL PRODUCTS.

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THE SECRETARY OF AGRICULTURE IN HIS TESTIMONY ON THE TRADE ACT BEFORE SENATE FINANCE COMMITTEE ON MARCH 6, 1974, DESCRIBED THE U.S. POSITION ON DAIRY IN THE MTN AS FOLLOWS:

"IF, IN THE MULTILATERAL TRADE NEGOTIATIONS, WE CAN PERSUADE OUR TRADING PARTNERS TO RATIONALIZE THE INTERNATIONAL TRADING RULES REGARDING EXPORT SUBSIDIES, AND LIMIT OR TERMINATE THOSE SUBSIDIES, IT SHOULD BE POSSIBLE TO SUBSTANTIALLY REDUCE OR ELIMINATE THE PROBLEMS CREATED FOR OUR DAIRY INDUSTRY BY ARTIFICIALLY PRICED IMPORTS HERE."

"CERTAINLY THIS ADMINISTRATION IS PREPARED TO PUT THE MATTER OF QUOTAS ON THE NEGOTIATING TABLE, AND JUST AS CERTAINLY WE ARE NOT GOING TO GIVE THEM AWAY EXCEPT FOR A RETURN BENEFIT AND UNDER CONDITIONS OF FULLY FAIR COMPETITION. FURTHERMORE, WE WILL STILL HAVE AVAILABLE A NUMBER OF MECHANISMS, INCLUDING COUNTERVAILING DUTIES, TO PROTECT OUR FARMERS AGAINST UNFAIR IMPORT COMPETITION."

ON MAY 11, 1973, BEFORE THE HOUSE WAYS AND MEANS COMMITTEE SECRETARY BUTZ SAID:

"IF WE ARE GOING TO OBTAIN THE KINDS OF BENEFITS I HAVE BEEN DESCRIBING FROM OUR TRADING PARTNERS, THEN WE, TOO, MUST BE PREPARED TO LIBERALIZE, INCLUDING DOING SUCH THINGS AS EXPANDING OR ELIMINATING SECTION 22 QUOTAS."

5. EXPERIENCE HAS SHOWN THAT PROTECTIONISM BREEDS DISTORTIONS IN TRADE AND PRODUCTION. THE OBJECTIVES OF THE NEGOTIATIONS SHOULD INCLUDE REDUCTION, IF NOT ELIMINATION OF THE VARIOUS FORMS OF QUANTITATIVE RESTRICTIONS, WHETHER THESE BE OUTHRIGHT QUOTAS, MIXING REGULATIONS, RESTRICTIVE LICENSING, MINIMUM IMPORT PRICES, VARIABLE LEVIES, UNWARRANTED SANITARY CONTROLS, OR OTHER TYPES OF BORDER RESTRICTIONS. TRADE LIBERALIZATION WILL CONTRIBUTE TO THE EFFICIENT USE OF RESOURCES AND SUBSTANTIAL GAINS IN THE VOLUME OF WORLD TRADE. INGERSOLL

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## Message Attributes

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